

DANMARKS NATIONALBANK

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New research using comprehensive aggregate data reveals:

Euro area remains the little brother in transatlantic relations

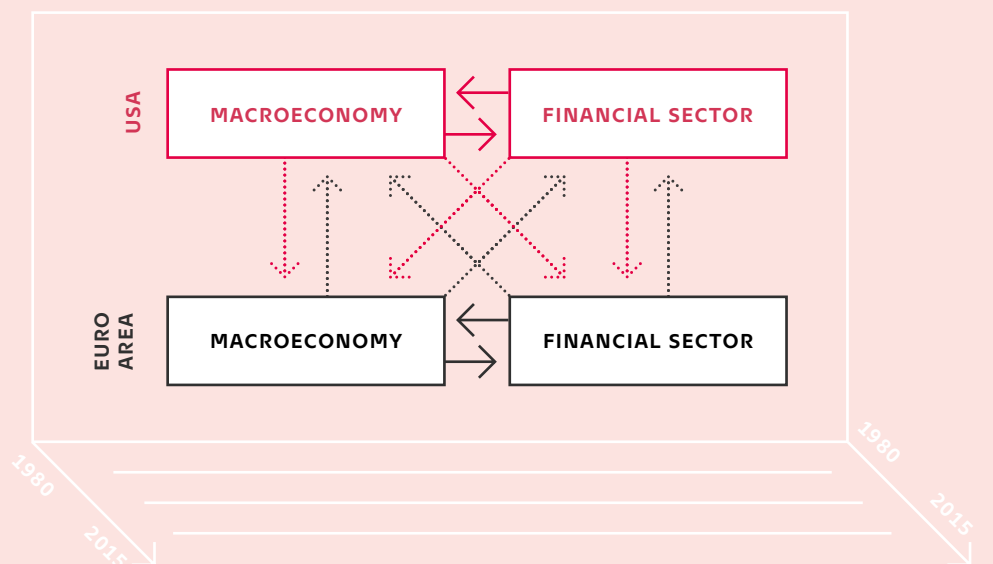
The euro area economy and its financial sector remains disproportionately more vulnerable to shocks originating from the US than in reverse, as demonstrated in a brand-new international study with data spanning four decades.

A new comprehensive study of transatlantic macroeconomic and financial relations shows that, although the EU is the world's largest trade bloc, it is still the Americans who are more important to the EU than vice versa. Providing new facts about the balance

between the two blocs, the study may help to explain events such as the international contagion of the 2008 financial crisis and the contamination to the euro area from the recent US-China trade conflict.

In an original empirical study, Eddie Gerba from Danmarks Nationalbank and Danilo Leiva-Leon from Banco de España have analysed and compared the interaction between the financial sector and the macroeconomy in the US and the euro area over the past four decades. In addition, they pin down the

International macro- financial interactions over time



Source: Danmarks Nationalbank.

force that each economy exerts over the other by examining the cross-border spillovers in the economic as well as the financial sphere. Their results point to the conclusion that the US dominance over the euro area remains, both in the macroeconomic and financial spheres, although it has slightly weakened following the introduction of the euro.

Moreover, they find that whenever the euro area financial sector experiences a negative shock, the US financial sector experiences a stimulus, possibly because investors move their money to US markets.

The study also shows that the interaction between the financial sector and the macroeconomy is considerably stronger in the euro area than it is in the US, a somewhat unexpected discovery. And while this interaction has grown stronger over the years in the euro area it has largely oscillated in the US.

Read the new Working Paper here ([link](#)).

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The news article consists of a Danish and an English version. In case of doubt regarding the correctness of the translation the Danish version is considered to be binding.

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